



FOR IMMEDIATE RELEASE

October 19, 2005

Fact Sheet No.: FS-06-01-E

Press Office Tel.: 202-712-4320

Public Information Tel.: 202-712-4810

Email: usaid-panamainfo@usaid.gov

<http://www.usaid.gov>

FACT SHEET

STUDENT LOAN DEVELOPMENT CREDIT AUTHORITY GUARANTEE

By facilitating a private-public alliance that invests in professional training for the fastest growing demographic group in Panama, USAID assists Panama to maximize its comparative advantage under the anticipated bilateral free trade agreement with the United States. Investment in human capital is essential for success of the free trade agreement because Panama's comparative advantages are in services, banking/finance, and shipping/engineering—all of which depend on an educated workforce.

A student loan product was needed in Panama because there is little to no financing available to help level the playing field between affluent and middle- to low-income families. Without access to financing, the socio-economic disparity will continue to worsen.

Under a pilot program, USAID partnered with a local Panamanian bank to facilitate student loans by guaranteeing 50% of the principal through the Development Credit Authority (DCA). By sharing risk with the bank, USAID encouraged the development of the first private sector loan product tailored to the needs of university students in Panama. The terms of the student loan to pay for tuition include a grace period while the student is in school, a longer maturity, and a more affordable interest rate. This pilot program guarantees up to a \$5 million loan portfolio, with a facility term of 10 years from the date that the Agreement between USAID and the bank was signed. USAID supported this alliance with \$235,000 in Global Development Alliance (GDA) Incentive Funds.

The alliance is led by Laureate Education, global leader of accredited campus-based and online universities. The two Panamanian universities, "Universidad Interamericana de Panamá" and "Universidad Latinoamericana de Ciencia y Tecnología" that are part of Laureate provide a 20 percent discount on tuition costs. The loan from BanVivienda covers 100 percent of the tuition, so the 20 percent differential is put into a reserve trust established to cover up to \$1 million in losses of principal on loans made to their students. Once this trust is exhausted, the loan portfolio guarantee through DCA will cover up to 50 percent of losses. This means that the USAID Development Credit Authority guarantee is in second loss position after the trust. If the trust is not needed to pay defaults, it will remain capitalized and can be utilized as a guarantee for future loans after the expiration of the USAID guarantee.

Expected Development Impact

The short-term objectives of the guarantee are:

- Increase access to financing for university-level education for middle- and low-income students
- Demonstrate to the Panamanian banking sector the viability of lending to students

A longer-term objective, which is highly dependent on the success of this pilot activity, is to help the Government of Panama's student-loan agency, "Instituto para la Formación y Aprovechamiento de Recursos Humanos (IFAHRU), transition into a guarantor rather than be a lending institution.